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NATIONAL OPERATOR OF SEXUALLY ORIENTED BUSINESS PLEADS GUILTY TO FEDERAL OBSCENITY AND TAX CHARGES

WASHINGTON, D.C. – The Department of Justice, the Department of Homeland Security's U.S. Immigration and Customs Enforcement, and the Internal Revenue Service announced that Edward J. Wedelstedt, of Littleton, Colorado, pled guilty this morning in federal court in Dallas, Texas, before the Honorable Paul Stickney, United States Magistrate Judge, to transporting obscene matters for sale or distribution, in violation of 18 U.S.C. § 1465, and engaging in a conspiracy to defraud the United States by frustrating, impeding, or hindering the Internal Revenue Service (IRS) of the Treasury Department, in violation of 18 U.S.C. § 371. Wedelstedt's plea, if accepted by the Court, will result in a 13-month prison sentence to be followed by one year of supervised release. Wedelstedt will also face forfeiture of businesses and property located in Texas. Further, Wedelstedt has already forfeited \$1.25 million to the U.S. government in connection with this investigation. The sentencing date is scheduled for February 9, 2006.

Alice S. Fisher, Assistant Attorney General of the Criminal Division of the Department of Justice said, "The Department of Justice, with other law enforcement agencies, will pursue those, like Edward Wedelstedt, who transport adult obscene material in violation of our criminal laws with all available tools. This will include jail time, tax penalties, and forfeiture of business interests where those businesses engage in the distribution of obscene material. This guilty plea is a warning to others who are pandering such hard-core pornography that the Department of Justice will bring to justice those who violate our Nation's obscenity laws."

The indictment in this case addressed the criminal activities of Wedelstedt and his wholly owned, multi-million dollar corporation called Goalie Entertainment Holdings, Inc. (GEH), related to the operation of adult pornography bookstores with video arcades throughout the country where customers could pay to view clips of obscene videos or DVDs. Among the video arcades operated by GEH and its subsidiary Goalie Entertainment were arcades in Abilene, Amarillo, Merkel, Terrell, Hillsboro, Wichita Falls, Lubbock, and Dallas, Texas.

Richard B. Roper, United States Attorney for the Northern District of Texas, said "Mr. Wedelstedt is the self-proclaimed largest distributor of pornography in the United States. Tough law enforcement and aggressive prosecution have dismantled Mr. Wedelstedt's organization throughout the State of Texas. Today's guilty plea clearly shows that federal and state law enforcement will vigorously enforce federal laws against individuals that distribute obscene and degrading material in our communities."

Alonzo Pena, Special Agent-in-Charge, U.S. Immigrations and Customs Enforcement in San Antonio said, "The investigation leading to today's guilty plea exemplifies a true team effort among many law enforcement agencies. Our coordinated pursuit and investigative expertise in criminal interstate trafficking and tax fraud uncovered the individuals who distributed obscene material while engaging in federal tax crimes related to their illicit profits."

According to documents filed with the District Court in Dallas, Wedelstedt has managed and operated the following pornographic bookstores and adult video arcades in Tarrant County, Dallas County, and elsewhere in the Northern District of Texas: Bright Lights I, Bright Lights II, Star Video, New Video, Eros Books, Regal Video Stop, Scooters, Adult Etc. I, Adult Etc. II, Adult Etc. IV, and Adult Etc. V. Wedelstedt's stores, both in Texas and throughout the country, contain a video arcade or "peep show," consisting of a dozen or more small, private booths containing video screens with channel controls and devices which accept coins or tokens. The video players permit customers to view sexually explicit videos by placing money or tokens into a slot which activates the screen for a finite length of time, usually one minute or less. The customers can select from a variety of sexually explicit videos by pushing various channel buttons. Customer viewing time can be extended by inserting additional coins, currency or tokens. The adult pornography bookstores and the video arcades typically operate 24 hours per day, seven days a week.

By his plea, Wedelstedt has admitted that he distributed one of the videos named in the indictment to his stores in Texas, and that the video was obscene as judged by community standards in the Northern District of Texas. The video can generally be described as depicting hard core pornography with patently offensive depictions of adults performing sexual conduct. The video was shipped from another Wedelstedt company located in California through a common carrier.

Wedelstedt further admitted that he conspired with certain arcade managers within his company to have large amounts of cash generated from his company's arcade operations provided directly to him, giving him absolute control over the funds. Wedelstedt collected these large amounts of cash and transported it back to his headquarters in Denver, Colorado. Wedelstedt directed his arcade managers to supply him with weekly summary sheets, along with the currency, that detailed the total amount of arcade revenue being provided to him personally. These weekly summary sheets, the only written record of the amount collected by Wedelstedt, were not retained by GEH. From these cash funds, Wedelstedt frequently paid cash salaries and cash bonuses to employees and other parties without reporting the payments to the company accounting or payroll departments, with the agreement between Wedelstedt and the recipients of the cash that the payments would not be reported to the IRS. These actions resulted in a tax loss to the government of hundreds of thousands of dollars.

Pursuant to the terms of the plea agreement filed with the court, Wedelstedt will terminate all current sexually oriented business activities in the State of Texas, and will forfeit all business property located in the state. Further, Wedelstedt will cease all sexually oriented business operations in the state during his terms of sentence and supervised release.

Wedelstedt was indicted on March 11, 2005, along with six individual defendants and GEH. One of the defendants, Leroy Moore, Sr., a former business associate of Wedelstedt, pled guilty in June to one count of conspiracy to distribute obscenity, the sole count he faced in the indictment. Moore will be sentenced at a later date.

Nancy J. Jardini, Chief of Criminal Investigations, Internal Revenue Service said, "All income is taxable - legitimate income as well as the proceeds of fraudulent activity. Failure to pay taxes impacts every law abiding, taxpaying citizen. When law enforcement agencies combine resources and expertise, we create a formidable force-the result of which you see today."

The case is being prosecuted by Trial Attorneys Steve Grocki and Alexandra Gelber of the Child Exploitation and Obscenity Section, Criminal Division, Department of Justice; Assistant U.S. Attorneys Linda Groves and Erin Nealy Cox of the United States Attorneys' Office for the Northern District of Texas; Dallas County Assistant District Attorney Tim Gallagher who was deputized as a Special Assistant U.S. Attorney for the investigation; and Trial Attorney Robert Kemins of the Tax Division, Department of Justice. Assistance was also provided by the Organized Crime and Racketeering Section and the Asset Forfeiture and Money Laundering Section, both part of the Criminal Division of the Department of Justice.

The obscenity investigation was spearheaded by U.S. Immigration and Customs Enforcement, and the tax evasion investigation was handled by the Criminal Investigations Division of the Internal Revenue Service. Investigative assistance was also provided by several police departments and prosecutors' investigators from several states, including the Dallas District Attorney's Office.

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